

The Philippines Sin Tax Reform and Health Spending

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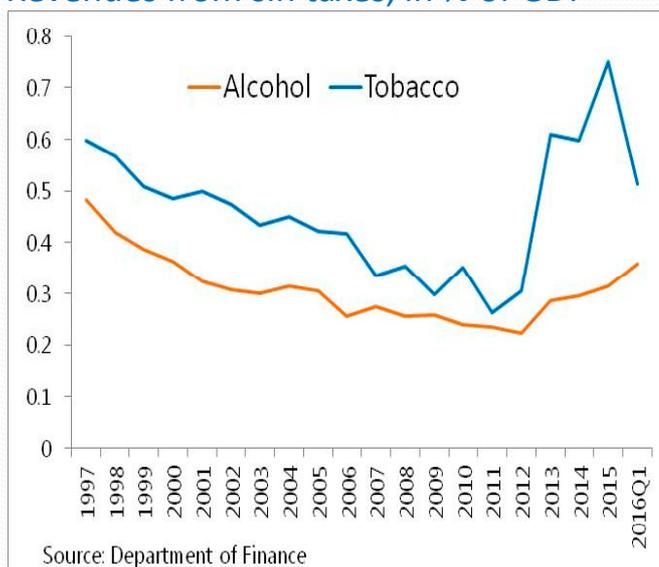
IMF Resident Representative to the Philippines

Joint CBSL-IMF Capacity Building Seminar on Enhancing Social Spending in Support of Inclusive Growth in Asia, Colombo, July 14-15, 2016

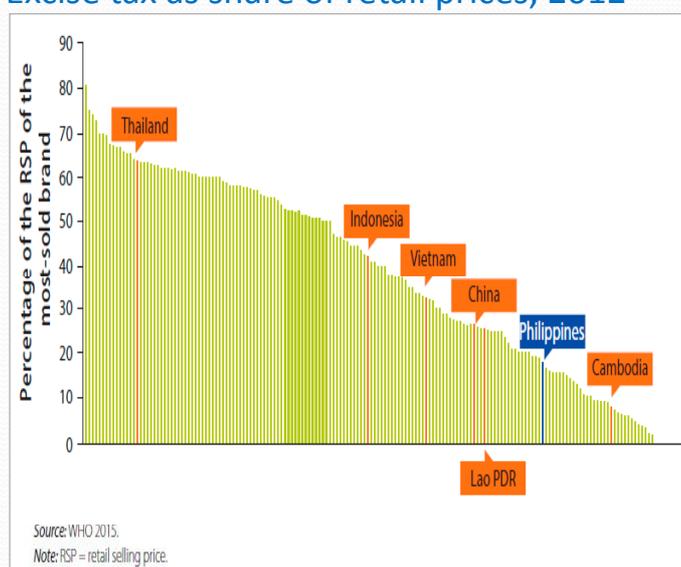
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Background and context

Revenues from sin taxes, in % of GDP

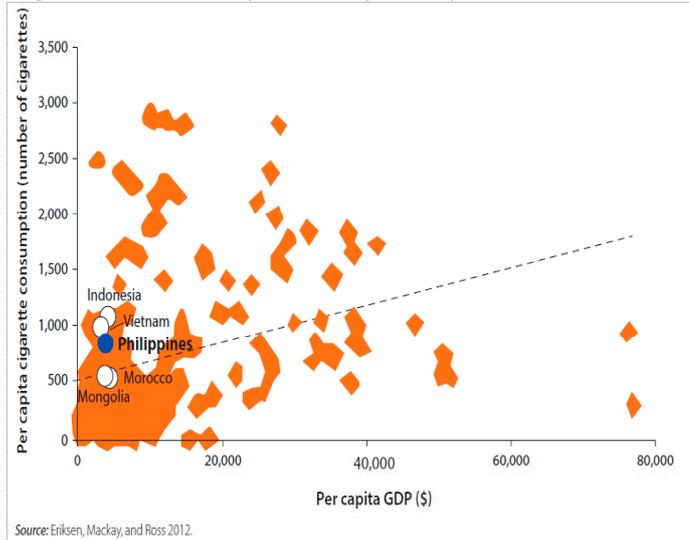


Excise tax as share of retail prices, 2012

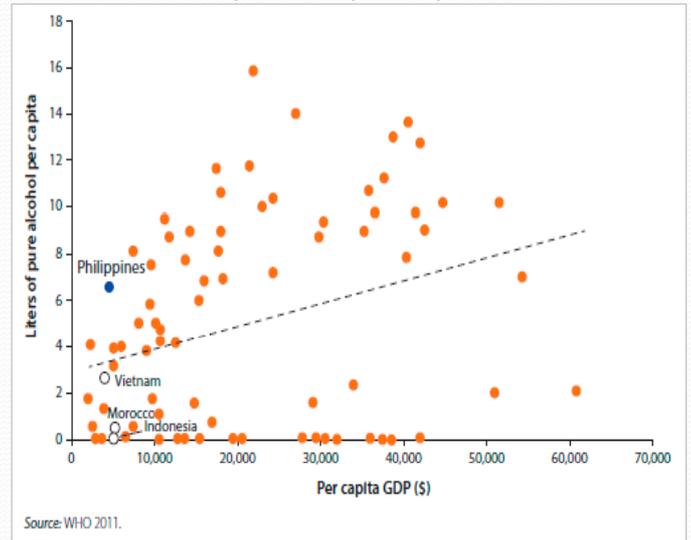


The consumption of cigarettes and alcohol was relatively high due to the lower prices...

Cigarette consumption vs per capita income, 2009



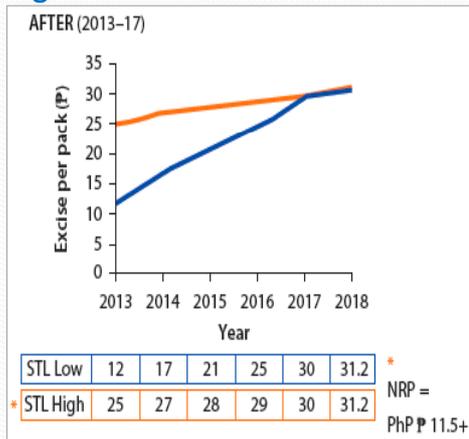
Alcohol consumption vs per capita income, 2012



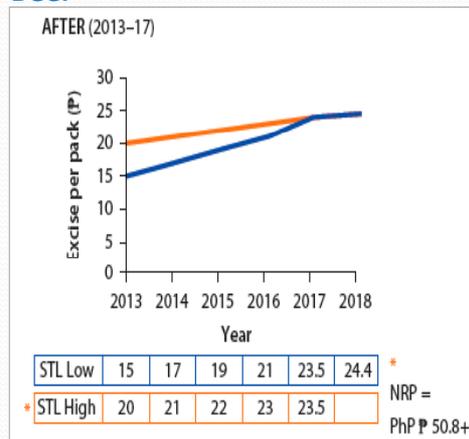
A landmark tax reform...

- Increased taxes on cigarettes, beer and spirits
- Lower floor prices
- Simplified overall tax structure

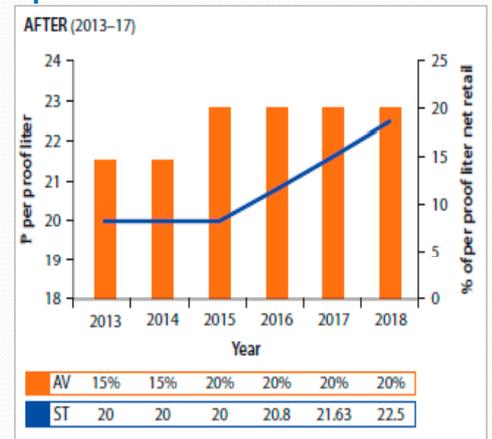
Cigarettes



Beer



Spirits



... but not an easy passage...

- Impact on tobacco industry
- Impact on alcohol industries
- Is the tax regressive? Would the poor (who smoke most) suffer disproportionately from the tax increases?
- Would the reform encourage smuggling and illicit trade?
- Would rates of smoking (and excessive drinking) actually fall?
- Would small tobacco farmers be adversely impacted?

An Evidenced Base Approach of Close Engagement with Congress and CSOs Facilitated Passage

Significant “Soft” earmarking for universal health coverage and the poor helped push through the reform

Enhanced historical earmark for tobacco farmers

- Around 15% of tobacco excises for farmer livelihoods in tobacco-growing regions.

Of the remainder:

- Eighty percent (80%) for:
 - National Health Insurance Program – free insurance for 14.7 mn families
 - Attainment of the Millennium Development Goals (MDGs)
 - Health awareness programs
- Twenty percent (20%):
 - Medical assistance (MAP)
 - Health Facilities Enhancement Program (HFEP)

“Soft” earmarking was used to:

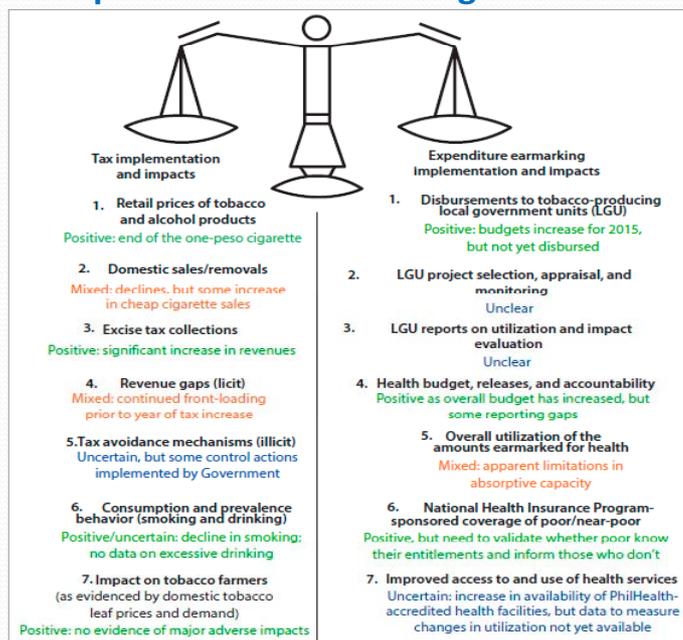
- Position the reform, and associated tax increases, as in the interests of the health of the poor
- Mitigating the risk of adverse poverty and social impacts

Role of ex-ante and ex-post Economic and Social Impact Analysis

Ex-ante: Just-in-time notes by development partners and authorities

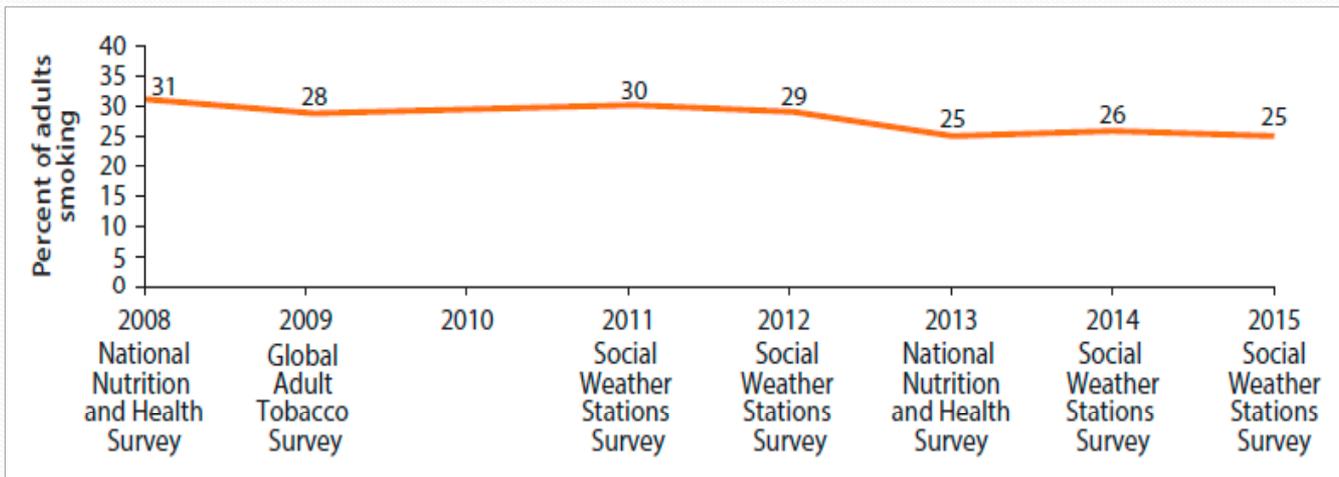
1. Revenue projections and post-reform scenarios
2. Earmarking revenues for health
3. Poverty and equity impacts of excise tax
4. Tobacco farmer impacts
5. Industry impacts
6. Philippines beer, spirits, and wine excise reform
7. Cigarette smuggling risks

Ex-post: sin tax monitoring framework



Impact of Sin Tax Reform

Decline in adults smoking



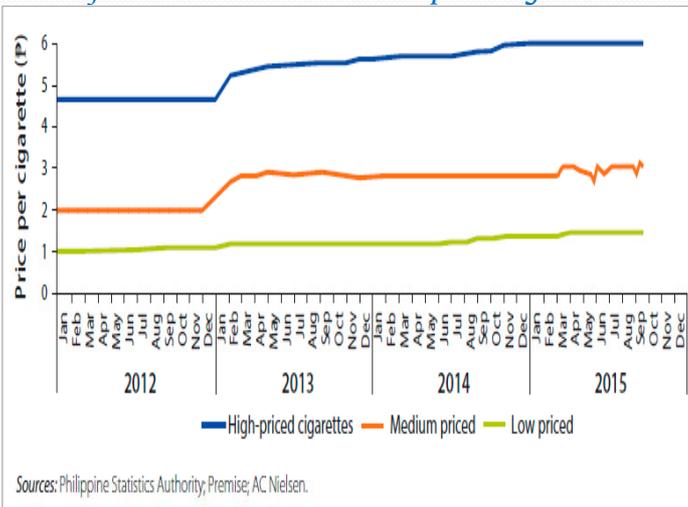
SWS surveys:

Even sharper reduction in smoking among the **youth** (18-24 years): 35% to 22%, between 2012 and 2015

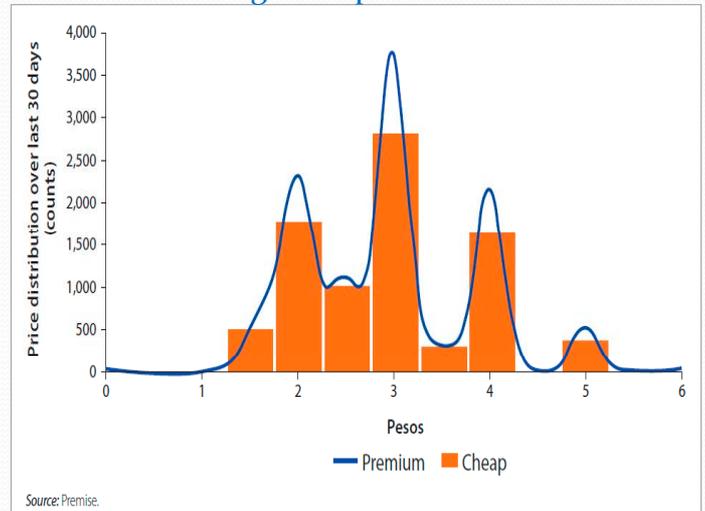
Even sharper decline in smoking among the poorest (38% to 27%) than among the middle class (constant at 26%)

Price Impact of reforms

The reform eliminated the one-peso cigarette

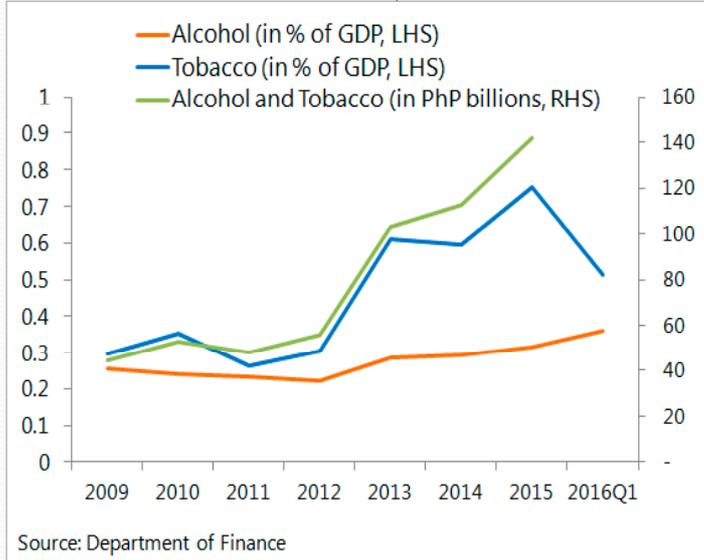


Distribution of cigarette prices

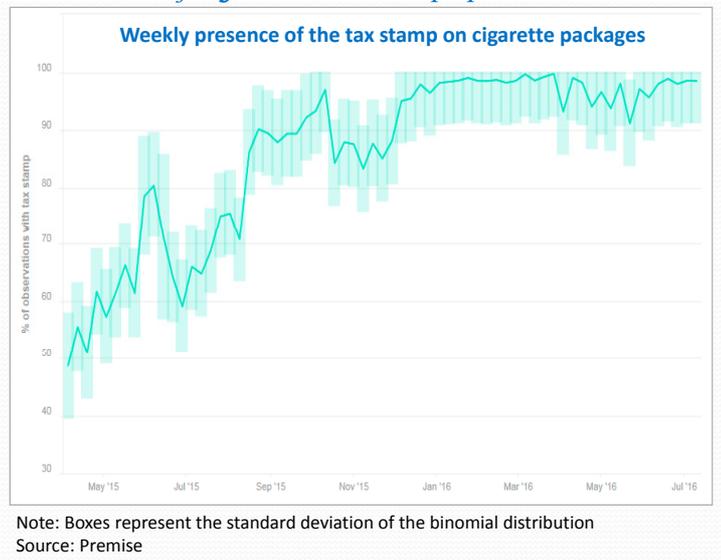


Revenue Impact of Reforms and Administration ...

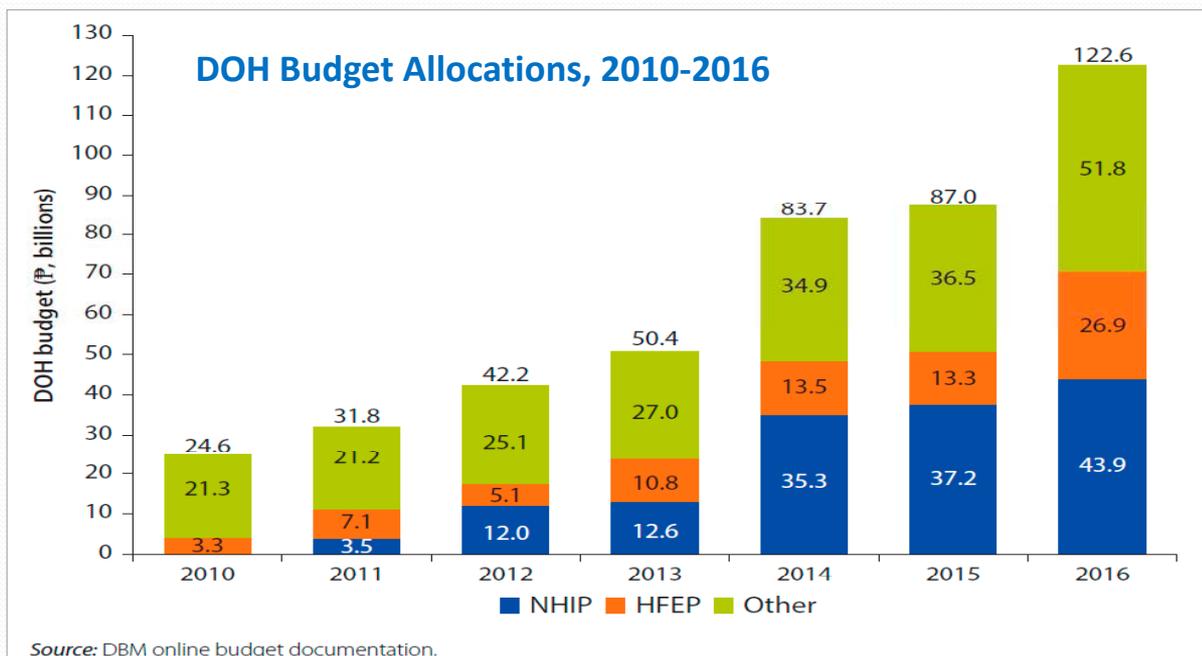
Revenues doubled as share of GDP



The rollout of cigarette tax stamps protected revenues



Increase in health budget



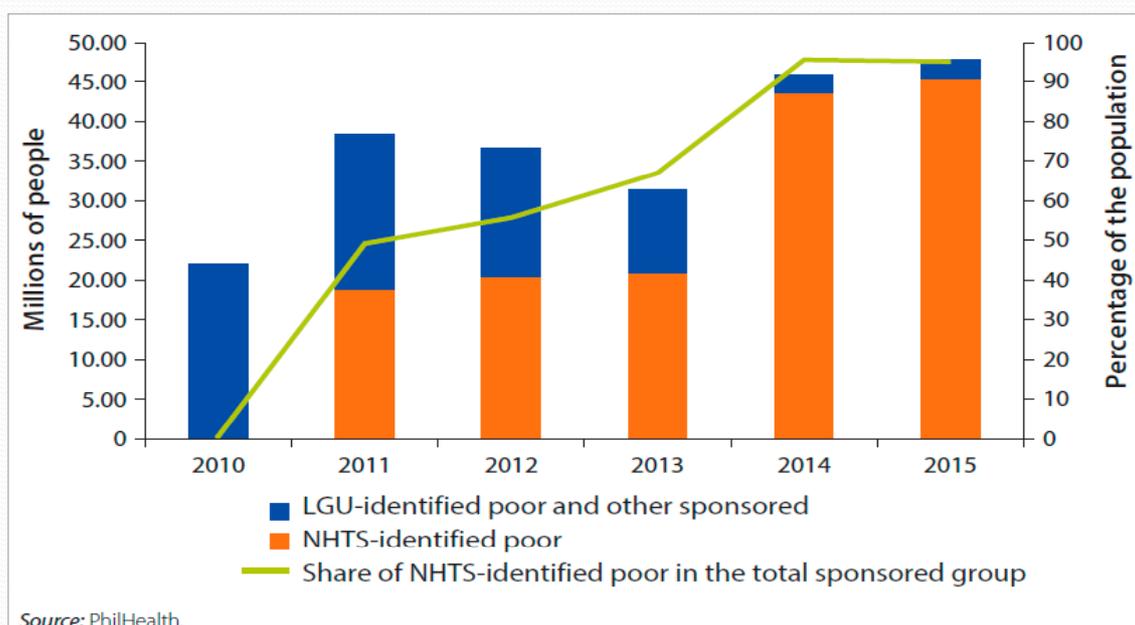
And utilization...

DOH programs	2013			2014		
	Obligation (₱, billions)	Adjusted allotment (₱, billions)	Utilization (%)	Obligation (₱, billions)	Adjusted allotment (₱, billions)	Utilization (%)
National Health Insurance Program	12.55	12.63	99	35.34	35.34	100
Attainment of MDGs and health awareness programs	5.21	6.12	85	6.63	8.54	78
Health Facilities Enhancement Program	2.81	6.52	43	3.72	6.48	57
Medical Assistance Program	n.a.	n.a.	n.a.	0.69	0.85	81
Total DOH appropriations	45.82	51.44	89	72.19	80.97	89

Sources: Department of Health; Department of Budget and Management.

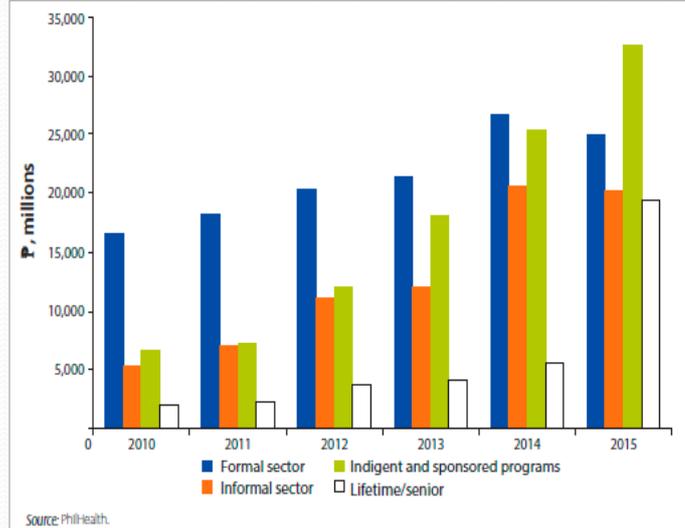
Note: DOH = Department of Health; MDGs = Millennium Development Goals; STL = Sin Tax Law; n.a. = not applicable.

Increase in coverage of the poor by free (government-subsidized) health insurance

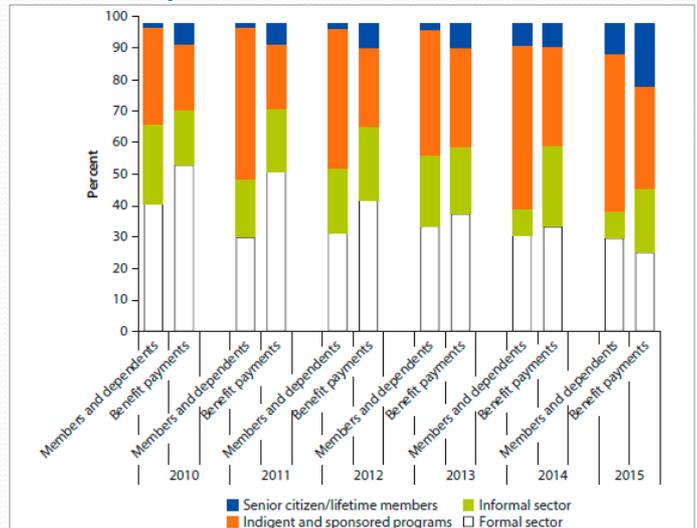


Benefit payments to the poor are increasing, but they still get less than their share

Number of PhilHealth claims



Membership vs claims share



Conclusions

- The STL has continued to yield increasing revenues, particularly from cigarettes.
- Floor prices for cigarettes continue to rise with the progressive increases toward a unitary excise rate for cigarettes in 2017
- The health impact of the STL—both direct and indirect effects—is positive, though it may be too early to assess the full impact
- The 2015 DOH/SWS survey shows the prevalence of smoking fell from 29 percent in 2012 to 25 percent in 2015, while the percentage of those who had never smoked increased from 50 percent to 59 percent over the same period. A similar trend was observed in the NNHS data, which show that the prevalence of smoking fell from 31 percent in 2008 to 25 percent in 2013.
- Revenues generated from the new excise taxes allowed the national government to increase the number of families provided with free health insurance from 5.2 million families to 14.7 million families, as well as subsidize 5.9 million senior citizens, bringing the country close to achieving universal coverage of health insurance.
- Cigarette prices are still low and Sin Tax reform could be extended in 2017-18